SAFEWAY STORES, INCORPORATED · ANNUAL REPORT · 1965

SAFEWAY STORES, INCORPORATED

DIRECTORS

ROBERT A. MAGOWAN
Chairman of the Board and President

ERNEST C. ARBUCKLE
Dean, Graduate School of Business Stanford University

J. G. BOSWELL II
President and Director J. G. Boswell Company

NORMAN CHANDLER
Chairman of the Board and Chief Executive Officer The Times Mirror Company

HENRY B. CLAY
Senior Vice President

CHARLES DE BRETTEVILLE
Chief Executive Officer, President and Chairman of Executive Committee The Bank of California, N.A.

HUGH FROST
Vice President

ARTEMUS L. GATES
Business Consultant

A. RUSSELL GRIFFITH
Vice President and Controller

ROGER D. LAPHAM, JR.
President and Director of Alexander, Sexton & Carr of California and Executive Vice President and Director of Alexander, Sexton & Carr, Inc.

MICHAEL W. MCCARTHY
Chairman of the Board and Chief Executive Officer, Merrill Lynch, Pierce, Fenner & Smith Incorporated

WILLIAM S. MITCHELL
Senior Vice President

QUENTIN REYNOLDS
Senior Vice President

MILTON L. SELBY
Retired, formerly President of the Company

JACK I. STRAUS
Chairman of the Board R. H. Macy & Co., Inc.

EXECUTIVE OFFICES

Fourth and Jackson Streets, Oakland, California
(P. O. Box 660, Oakland, California 94604)

TRANSFER AGENTS

The Chase Manhattan Bank (National Association), New York, New York and the Crocker-Citizens National Bank, San Francisco, California

REGISTRARS

First National City Bank, New York, New York and The Bank of California, National Association, San Francisco, California

ACCOUNTANTS

Peat, Marwick, Mitchell & Co.

EXECUTIVE COMMITTEE

Robert A. Magowan
Chairman

Ernest C. Arbuckle

Charles de Bretteville

Roger D. Lapham, Jr.

Milton L. Selby

OFFICERS

Robert A. Magowan
President and Chairman of the Board

Henry B. Clay
Senior Vice President
Regional Retail Manager

William S. Mitchell
Senior Vice President
Supply Operations and
Regional Retail Manager

Hugh Frost
Vice President
Real Estate, Construction
and Engineering

Malcolm P. Grover
Vice President
Personnel, Public Relations
and Economic Research

A. Russell Griffith
Vice President and Controller
Accounting and Finance

Quentin Reynolds
Senior Vice President
U.S. Retail Operations,
Advertising, Market Research
and Grocery Merchandising

R. L. Campbell
Vice President
Denver Division Manager

Lorenzo N. Hoopes
Vice President
Supply Division Manager

G. H. Parker
Vice President
Regional and San Francisco
Division Manager

Herman F. Weber
Vice President
Industrial Relations

J. W. Rupley
Treasurer

Drummond Wilde
Secretary and Vice President
General Counsel

ANNUAL MEETING

The 1966 Annual Meeting of the Common Stockholders will be held on May 17, 1966. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 8, 1966. This Annual Report does not constitute part of the proxy soliciting material.

FINANCIAL HIGHLIGHTS

	1965	1964 (53 Weeks)
Operating Results [1]		
Sales	$2,939,043	2,817,569
Income before provision for income taxes	95,150	97,875
Provision for income taxes	46,965	47,895
Net income	48,185	49,980
Net income as a percent of sales	1.64%	1.77
Distribution of Earnings [1]		
Dividends to preferred stockholders	$ 173	735
Dividends to common stockholders	25,376	23,367
Earnings retained in the business	22,636	25,878
Per Share of Common Stock [2]		
Net earnings	$ 1.89	1.95
Depreciation	1.47	1.35
Cash flow	3.36	3.30
Dividends paid	1.00	.92½
Working capital	5.55	5.53
Book value	13.63	12.73
Price range New York Stock Exchange—Low-High	30⅛-42¼	28-37¾
Financial Position (at end of year)		
Working capital [1]	$ 140,891	140,163
Current assets per dollar of current liabilities	1.83	1.89
Equity of common stockholders [1]	346,139	322,501
Other Statistics		
Number of employees (at end of year)	69,248	68,804
Approximate number of stockholders of record (at end of year)	67,000	58,100
Number of stores (at end of year)	2,128	2,099
Average annual sales per store [1]	$ 1,349	1,322

Note: (1) *In thousands of dollars.*
(2) *Adjusted for 2 for 1 stock split 11/23/64.*

To Safeway Shareholders and Safeway People:

Safeway's sales in 1965 were up 4.3%, maintaining a healthy growth rate that has prevailed during each of the last ten years. But profits were down, for only the second time in the decade. Each time this has happened when a 52 week year followed a 53 week year.

In 1965 our net profit was $1.89 per share. This compares with $1.95 in 1964, a figure which included an estimated 5¢ resulting from the extra week of operation.

While the extra week accounts for much of the difference, other reasons why profits were not better were extraordinary start-up costs for our Safeway Super $ stores and for our overseas operations. Progress being made to eliminate the drain caused by these activities is described elsewhere in this Report.

Even so, 1965 earnings were the second best in history.

Second best is not enough. We are not accustomed to reporting lower earnings to our stockholders, and we intend to do everything we can to bring about an improvement in 1966. We think we can get a healthy gain in sales, and that we can convert this into greater profits by operating our business more economically.

This means not only controlling expenses but improving productivity. Our most important asset in facing these objectives is the caliber of people who will be running the business. We have an organization of trained, experienced men and women that we believe is second to none in the food industry.

And we propose to keep it that way. We know that skills which sufficed only a few years ago are no longer adequate in the type of retail business we have today. We are continually upgrading the qualifications for new applicants, and we are giving advanced training to promising individuals already in the organization.

Finally, we are well aware of the vital importance of pleasing our customers. Some competitors also have fine stores—excellent facilities—wide assortments—attractive prices. But we can offer all of these plus outstanding perishables and, above all, a warm atmosphere within the store itself. If the shopper finds genuine friendliness and a sincere interest in her needs, she has a strong reason for coming back.

With this kind of program backed up by the collective know-how of our 70,000 Safeway employees, I am confident that 1966—the 40th anniversary of our incorporation—will be a successful year.

Robert A. Magowan

March 15, 1966
Oakland, California

President and Chairman of the Board of Directors

1965 REVIEW OF OPERATIONS

FINANCIAL REVIEW

Sales

Safeway's sales in the United States and Canada for the 52-week 1965 fiscal year were $2.94 billion, a new high, 4.3% above the 1964 fiscal year which consisted of 53 weeks. Adjusted to a 52-week basis, the increase was 6.2% over 1964.

During the past decade, sales have increased 50% from a little under $2 billion to almost $3 billion. In order to achieve increases in the highly competitive grocery business it is necessary to have modern facilities, and most important, to have them in the right location. During 1965 we opened 145 new supermarkets in the United States and Canada and remodeled a substantial number of stores. We closed 116 obsolete food stores. This resulted in a net increase of 29 supermarkets for the year. We also opened 23 Safeway Super stores, closed one, and sold 22 located east of California to Skaggs Drug Centers, Inc., of Salt Lake City, Utah.

At year-end, there were 2,128 stores in operation in the United States and Canada, consisting of 2,100 supermarkets and 28 Safeway Super stores, the locations of which are shown on Pages 12 and 13. Also shown are the locations of stores of our overseas operations.

Approximately one-third of our stores are less than five years old. Sales volume per store continued to increase. Average weekly sales per store in 1965 were $26,000 or $1,350,000 per year, an increase of about $1,000 per store per week over 1964.

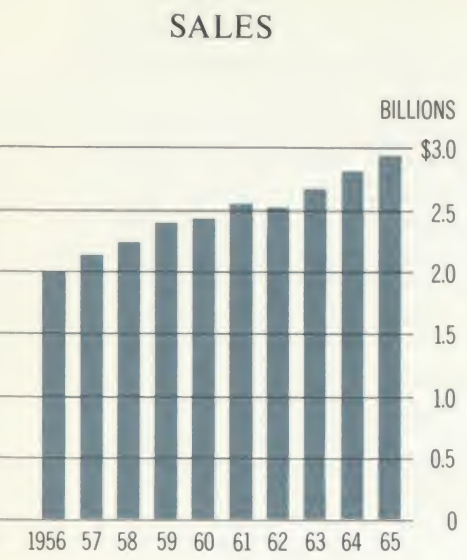
Net Income

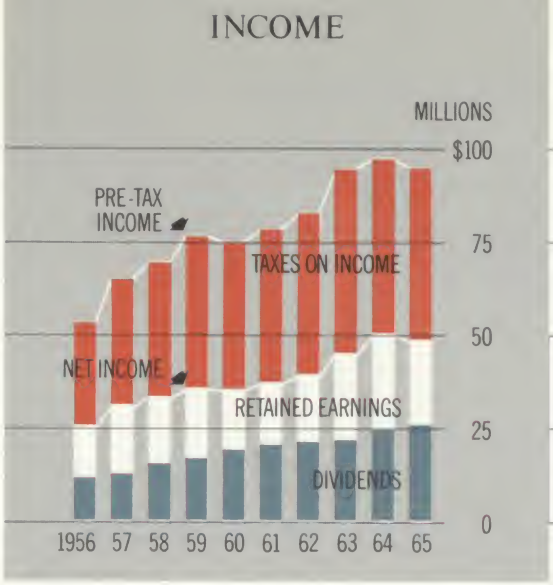
1965 net income after income taxes amounted to $48.2 million, and has been exceeded only by the 53-week fiscal year 1964. After providing for dividends on preferred stock, earnings per average common share outstanding for 1965 were $1.89 as compared to $1.95 for the 53-week year 1964.

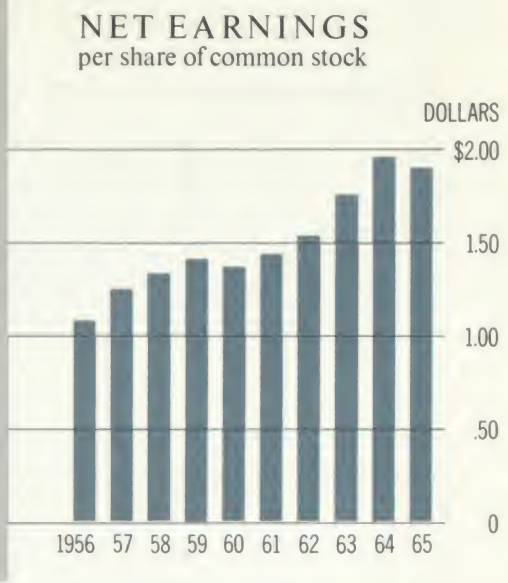
Throughout the year 1965 advances in wholesale prices and in other costs put pressure on retail prices. Particularly during the first part of the year, this price lag contributed to depressed earnings rates. However, margins and earnings rates improved during the latter part of the year, as shown by the following tabulation:

	SALES IN MILLIONS	NET INCOME AS A % OF SALES	EARNINGS PER COMMON SHARE
12 WEEKS ENDED 3/27/65	$ 654	1.40%	$ .35
12 WEEKS ENDED 6/19/65	676	1.45	.39
12 WEEKS ENDED 9/11/65	689	1.74	.47
16 WEEKS ENDED 1/1/66	920	1.87	.68
	$2,939	1.64%	$1.89

Often a major remodeling is the answer to rejuvenate a store's business and also conform to the changing tastes of a community. Here, above, is Store No. 544, Oakland, Calif., in 1957. At right, the same store today after remodeling.







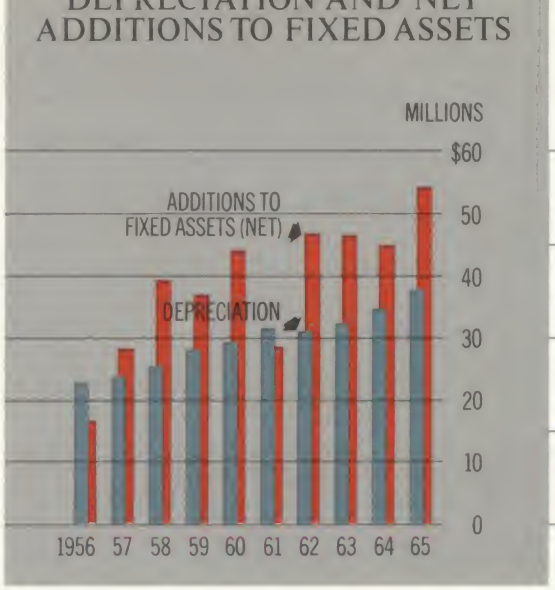
In 1965 there was an income deduction of $950,000 to cover the conversion to U.S. dollars of the net increase in assets of our Canadian subsidiaries for the year. The exchange value of the Canadian dollar relative to the U.S. dollar was fairly stable in 1965, beginning the year with $.9314, and ending the year at $.9304, a decline of 1/10th of a cent. The deduction of $950,000, however, was $300,000 larger than the 1964 provision of $650,000 because of greater increases in Canadian net assets in 1965. Offsetting this was a reduction of $342,000 in the amount charged to income to provide for converting Safeway's investment in non-consolidated overseas subsidiaries from cost to equity. The amount in 1965 was $1,105,706 as compared to $1,447,204 in 1964.

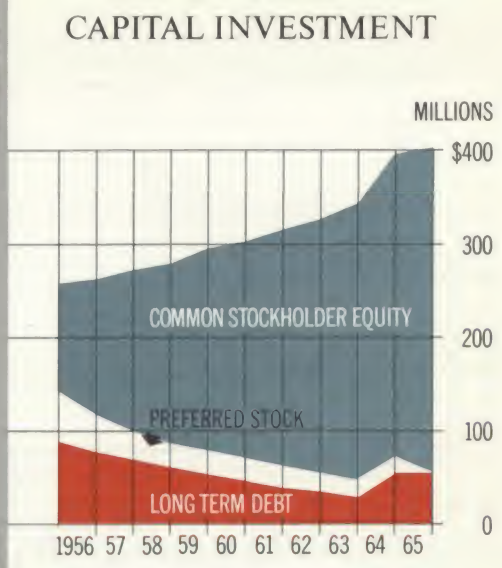
For 1965 we took an investment credit against Federal Income Taxes of $2,200,000 based on 1965 net equipment purchases. This was $325,000 less than the investment credit of $2,525,000 taken in 1964 applicable to equipment purchases of that year. Additionally, 1964 taxes were reduced by $1,894,000 of investment credit which had been deferred from prior years. Federal corporation income tax rates were reduced from 50% in 1964 to 48% in 1965. This reduction decreased our income tax provision by approximately $1,500,000.

In 1965 common stock dividends were paid each quarter at the rate of 25¢ per share for a total for the year of $1.00 per share. In 1964 the total payment per share was $.92½.

Funds Generated Internally

In 1965 funds generated internally, consisting of income plus charges against net income not requiring cash outlays in the year charged, amounted to $89.6 million. The major items were $48.2 million net income and $37.3 million depreciation





charge on fixed assets, primarily equipment. Additional charges to income, not requiring cash, were $1.1 million covering the provisions for self-insurance and conversion of the Canadian assets to U.S. dollar value, and $3.0 million of income taxes deferred to future years. This $89.6 million of funds generated internally was the equivalent of $3.53 per average common share outstanding during the year.

These funds, plus $17.6 million set aside in 1964 to redeem 4% preferred stock, were used as follows: $25.5 million paid as dividends to stockholders; $54.0 million net additions to fixed assets; $17.6 million for redemption of the 4% preferred stock; $6.7 million increase in other assets, primarily in overseas investment; and $3.4 million for other purposes as shown in the Source and Use of Funds portion of Financial Highlights of this report.

Financial Position

Working capital at year-end was $0.7 million higher than in 1964. The ratio of current assets to current liabilities was 1.83 to 1, as compared to 1.89 to 1 at the end of the previous year. This ratio has remained stable for the past ten years.

The two largest assets in the balance sheet, inventories and property (land, buildings, equipment, etc., after providing for depreciation), had net increases of $15 million and $16.7 million, respectively.

Stockholders' Equity

On April 1, 1965 the remaining 4% preferred stock was redeemed, leaving only common stock of Safeway Stores, Incorporated outstanding at year-end. Our Canadian subsidiary, Canada Safeway Limited, had $6.9 million of preferred stock outstanding, which is carried as a long-term liability on the consolidated

Safeway customers in remote regions of Alaska, unable to shop regularly, buy in large quantities and have orders shipped by plane. Not unusual is sight of dog sled meeting plane for further transport of purchases into rugged, snowbound interior. We have 4 stores in Anchorage and Fairbanks.

Unique indeed are the modes of transportation used by customers. We have them come by plane, boat, motorcycle; some use powered golf carts, horse and buggy. Equestrian shoppers (below) have hitching post at Moraga, Calif., store.

Departure from basic store designs is sometimes necessary when new store is not Company-built (in shopping center, for example) or to conform with local architectural motifs. At right, our store in Calexico, Calif., on the U.S.-Mexico border, has typical arched arcade to shelter shoppers from summer's heat.

balance sheet.

The common stockholders' equity at the end of 1965 amounted to $346.1 million, an increase of $23.6 million for the year. Book value per common share was $13.63, as compared to $12.73 at the end of 1964.

EXPENSE CONTROL

Expense control is a way of life at Safeway. With the strong competitive pressures that exist in the food industry, there must be a constant attack on the problem of rising costs.

This attack is two-pronged: a continual seeking for ways of improving the productivity of our manpower and our physical equipment; and the cutting of unnecessary costs.

Last year we outlined numerous steps under way in the fields of research and planning—to achieve greater efficiencies in design and construction, in inventory management, in merchandise handling, in store stocking, and in manpower use. These activities are continuing.

On the cost-cutting front, there was substantial effort and progress in 1965. Through a continuing maintenance-control program, repair expenses were held to previous levels despite increases in labor and material costs. Store employee turnover was reduced to an all-time low, which not only has cut our recruiting and training costs but also reduced our tax outlay due to reduced unemployment insurance claims. Through a long standing idea-exchange system, cost saving suggestions adopted by one department of the Company have been passed along to all other departments for possible adaptation. Many hundreds of these suggestions were acted upon during the year, ranging all the way from savings on paper stock used for stationery and bulletins to tighter control systems for reducing pilferage and bad check losses. Employee education programs have resulted in numerous cost-saving approaches in the retail stores, such as better bagging techniques, salvaging of reusable containers, reduction of phone calls through better planning, closer control on use of utilities, elimination of unneeded forms.

Because unnecessary costs are a direct drain on pre-tax profits, this is truly a case where a penny saved is a penny earned.

PEOPLE – *Employees*

People are the key to success in any business, and particularly so in Safeway. For

In-store bakeries have proved good traffic builders in certain store locations and have upped sales of these products. Tempting aromas lure impulse buyers. At year's end we had 205 stores with complete or modified in-store bakeries, and 64 under construction.

Far cry from the old days of grocery clerking is the intensely complex business of food retailing today. Demanding special skills and knowledge, exciting careers are attracting candidates from higher educational levels. Careers in Safeway fill 250 different types of jobs. New developments open up new opportunities.

this reason we are strongly committed to an effective, and continuing, recruiting and training program.

Modern retailing is a complex scientific operation requiring skilled technicians and skilled administrators. Each of our stores is a sizable business enterprise in itself, involving the handling, display and selling of thousands of different items, and requiring the services of up to 100 employees. Store operations, in turn, must be backed up by numerous non-selling activities providing a wide range of technical services – accounting, legal, research, design, advertising, construction, warehousing, trucking, personnel, and so on. For the prospective applicant there are over 250 different types of job possibilities – a point being continually emphasized in our recruiting work.

In the field of training another important step taken in 1965 was the inauguration of our Retail Management Training Program, to accelerate the development of capable executives at the store manager level. Nearly 200 employees, who are highly-promising but have had only limited retail experience, are undergoing an intensive two-year training program to prepare them to fill important retail management positions. The program will be further stepped up in 1966 to achieve a ratio of at least one trainee for each ten stores. An important share of candidates for the program, being identified and selected through a detailed screening process, are coming from the ranks of college people now working full or part time in our retail stores. Not only will these people be needed for their technical and administrative skills, but also for their ability to communicate effectively with our rapidly expanding numbers of college-trained customers.

In addition, we have continued the emphasis on *advanced* management training which was described in previous reports. The 13th and 14th sessions of our Management Development Program were completed during 1965. Two additional sessions are scheduled for 1966.

Safeway store managers take personal pride in training new employees, instilling teamwork spirit and aiding career-minded candidates to qualify for promotion. On-the-job training is supplemented by advanced courses in management development program.

PEOPLE – *Customer Relations*

It has been fifty years since our founder, M. B. Skaggs, with one assistant, operated Safeway's parent Store No. 1 in American Falls, Idaho. The entire building totaled 576 square feet. Warm personal contacts and constant attention to the needs of customers were among the key ingredients which made it possible for Mr. Skaggs to build a successful business, and then to duplicate the same pattern in store after store.

This personal touch is *still* the key to success, even though stores have expanded in size by fifty times or more, and carry many thousands of items. Each store is an immediate point of contact

FINANCIAL REPORT 1965

SAFEWAY STORES, INCORPORATED

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.

To the Board of Directors and the Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of January 1, 1966 and the related statement of income and retained earnings and the statement of source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at January 1, 1966 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the statement of Source and Use of Funds for 1965 presented herein under Financial Highlights presents fairly the information shown therein.

San Francisco, California
March 4, 1966

Peat, Marwick, Mitchell & Co.

CONSOLIDATED

As of January 1, 1966 (With Compa

ASSETS

	January 1, 1966	January 2, 1965
Current Assets		
Cash	$ 49,453,384	$ 44,880,798
Short term investments—at cost	—	2,445,972
Receivables	11,521,554	11,024,913
Merchandise inventories—at lower of cost or market	224,266,378	209,256,638
Prepaid expenses	12,862,171	10,522,049
Properties for development and sale within one year	13,463,501	19,846,625
Total Current Assets	311,566,988	297,976,995
Other Assets		
Funds segregated for redemption of 4% preferred stock	—	17,600,709
Investments in and advances to foreign subsidiaries not consolidated	16,214,042	10,188,909
Notes receivable and miscellaneous investments	4,666,315	3,951,404
Unamortized note and debenture issue expense	162,664	192,128
	21,043,021	31,933,150
Property		
Land, buildings, equipment, etc.—at cost	457,714,824	423,434,429
Less depreciation	213,621,441	196,015,960
	244,093,383	227,418,469
TOTAL	$576,703,392	$557,328,614

NOTES TO FINANCIAL STATEMENTS

NOTES AND DEBENTURES: Notes payable (excluding miscellaneous notes of $217,801) consist of $30,000,000 of 4.65% term notes of the parent company due November 1, 1979. Prepayment requirements of $3,000,000 per year with no premium are to commence May 1, 1970, with certain prepayment options at varying premium rates to maturity.

The debentures consist of: Parent $9,678,000 at 4.25% interest, maturing at $3,000,000 annually to maturity in 1969; Canadian subsidiary, $1,160,000 at 4.50% interest, with sinking fund requirement of $360,000 annually to maturity in 1970 ($2,962,000 of debentures have been acquired to meet certain of future sinking fund requirements).

Under the indenture covering the parent's debentures and agreements covering the 4.65% term notes, $115,504,875 and $86,772,672, respectively, of the retained earnings as of January 1, 1966 are free of restrictions for dividend payments and acquisitions of outstanding common stock. Certain other restrictions, including one upon creation of additional funded indebtedness are imposed by both the indenture and note agreements.

CAPITAL STOCK: On April 1, 1965, the then outstanding 173,406 shares of the Company's 4% cumulative preferred stock were redeemed and cancelled, leaving as authorized and unissued, 220,372 shares of this series of preferred stock.

Common stock, par value $1.66⅔ per share, consists of authorized 27,000,000 shares, outstanding 25,388,294 shares (after deducting 45,968 shares in treasury).

Of the unissued common stock of the Company, 847,090 shares are reserved for issuance pursuant to the Stock Option Plans of 1957 and 1963, authorizing the Board of Directors to grant to officers and employees of the Company and its subsidiaries restricted options (qualified options as to those granted after January 1, 1964 under the 1963 Plan, as amended in 1964) to purchase common stock in consideration

1965 FINANCIAL HIGHLIGHTS AND

	1965
Operating Results[1]	
Sales	$2,939,043
Income before provision for income taxes	95,150
Provision for income taxes	46,965
Net income	48,185
Net income as a percent of sales	1.64%
Distribution of Earnings[1]	
Dividends to preferred stockholders	$ 173
Dividends to common stockholders	25,376
Earnings retained in the business	22,636
Per Share of Common Stock[2]	
Net earnings	$ 1.89
Depreciation	1.47
Cash flow	3.36
Dividends paid	1.00
Working capital	5.55
Book value	13.63
Price range New York Stock Exchange—Low-High	30⅛-42¼
Financial Position (at end of year)	
Working capital[1]	$ 140,891
Current assets per dollar of current liabilities	1.83
Equity of common stockholders[1]	346,139
Other Statistics	
Number of employees (at end of year)	69,248
Approximate number of stockholders of record (at end of year)	67,000
Number of stores (at end of year)	2,128
Average annual sales per store[1]	$ 1,349
Source and Use of Funds[1]	
FUNDS PROVIDED FROM:	
Net income	$ 48,185
Charges to income not requiring funds:	
Depreciation provision	37,350
Deferred income taxes	2,987
Provision for self-insurance and decline in conversion value of Canadian assets	1,083
Decrease (increase) in other assets	10,890
Total	$ 100,495
FUNDS USED FOR:	
Dividends to Company stockholders	$ 25,549
Additions to fixed assets (net)	54,025
Retirement of and from sale of capital stock (net)	16,338
Increase (decrease) in working capital	728
Decrease (increase) in long-term debt	3,855
Total	$ 100,495

Note: (1) *In thousands of dollars.*
(2) *Adjusted for 2 for 1 stock split 11/23/64.*

ND SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the 52 Weeks Ended January 1, 1966 (With Comparative Figures for the 53 Weeks Ended January 2, 1965)

	1965	1964
Sales	$2,939,043,421	$2,817,568,934
Cost of Sales	2,299,707,753	2,199,096,686
Gross profit	639,335,668	618,472,248
Operating and Administrative Expenses	540,217,586	516,591,768
Operating profit	99,118,082	101,880,480
Other Deductions		
Interest on debentures and long term notes	1,935,154	1,047,160
Provision for decline in conversion value of Canadian assets	950,000	650,000
Provision for conversion to equity in nonconsolidated foreign subsidiaries	1,105,706	1,447,204
Other charges (income)—net	(22,346)	861,451
	3,968,514	4,005,815
Income before provision for income taxes	95,149,568	97,874,665
Provision for Federal, Canadian and other income taxes	46,965,000	47,895,000
Net Income	48,184,568	49,979,665
Retained Earnings at Beginning of Period	236,597,091	210,682,615
	284,781,659	260,662,280
Deduct:		
Cash dividends		
4.30% convertible preferred stock	—	18,236
4% preferred stock	173,406	717,019
Common stock	25,375,859	23,366,385
Additions resulting from stock conversions and acquisitions	(7,316)	(36,451)
	25,541,949	24,065,189
Retained Earnings at End of Period	$ 259,239,710	$ 236,597,091

FEDERAL INCOME TAX: The 1965 tax investment credit of $2,200,000 has been applied as a reduction of Federal Income Tax expense.

Deferred income taxes arise principally as a result of claiming depreciation for income tax purposes in excess of that taken in the accounts.

SUBSIDIARIES: The accounts of the Canadian subsidiaries are consolidated as U.S. Funds at dollar for dollar with provision made for the decline in Canadian exchange below par by establishing a reserve through a charge to income. Other foreign subsidiaries are not consolidated and the investments and advances therein, $16,214,042, are shown at U.S. dollar equity. Such investments represent: 91% interest in the United Kingdom subsidiary; 98% in the Australian subsidiary and 100% in the West German and Danish subsidiaries.

PROPERTY LEASES: Leases are in effect on 2,503 properties of which 1,891 contain options to cancel. Should the Company exercise these options it could be required to purchase 1,638 properties. Minimum rental on leases in effect at the year-end was approximately as follows for the years or periods indicated:

1966	$60,821,000	1971-1975	$281,063,000
1967	60,491,000	1976-1980	253,216,000
1968	58,883,000	1981-1985	126,650,000
1969	58,510,000	After 1985	18,900,000
1970	57,977,000		

CONTINGENT LIABILITIES: The liability upon completion of contracts for construction of buildings and purchase of land not reflected in the financial statements amounted to approximately $17,701,451.

Various claims and lawsuits incident to operations are pending against the Company and its subsidiaries. To the extent that such contingent liabilities are uninsured, General Counsel for the Company is of the opinion that the ultimate outcome of such claims and lawsuits will not have a significant adverse effect on the financial statements at January 1, 1966.

SAFEWAY STORES, INCORPORATED AN

BALANCE SHEET

ative Figures as of January 2, 1965)

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 1, 1966	January 2, 1965
Current Liabilities		
Debentures	$ 678,000	$ 2,532,000
Payables and accruals	146,680,936	128,103,091
Federal, Canadian and other income taxes	23,317,274	27,179,008
Total Current Liabilities	170,676,210	157,814,099
Long-Term Liabilities and Reserves		
Notes and debentures	40,377,801	43,948,271
Deferred income taxes	5,995,499	3,008,630
Preferred stock of Canadian subsidiary held by public—par value	6,855,200	7,139,600
Reserve for self-insurance and decline in conversion value of Canadian assets	6,659,802	5,576,817
	59,888,302	59,673,318
Stockholders' Equity		
Preferred stock	—	17,340,600
Common stock	42,313,823	42,217,923
Additional paid-in capital	44,585,347	43,685,583
Retained earnings	259,239,710	236,597,091
	346,138,880	339,841,197
TOTAL	$576,703,392	$557,328,614

of their agreements not to terminate their employment before fixed dates. All matured options become void unless exercised within three months after employment terminates, with a one-year extension on employee's death under both Plans, and in any event, not later than December 31, 1967 for those granted under the 1957 Plan or ten years (five years as to those granted after January 1, 1964) after the date of granting under the 1963 Plan.

At the beginning of the year options for 533,340 shares were outstanding at a total option price of $14,285,014. No options were granted during the year; options for 57,340 shares granted under the 1957 Plan were exercised at a total option price of $1,076,248; options for 200 shares granted under the 1963 Plan were exercised at a total option price of $6,119; options for 9,760 shares (which are subject to reallocation) and 1,000 shares (which are not subject to reallocation) became void due to death or termination of employment and no changes occurred during the year in the exercise price of outstanding options. At the end of the year options for 218,600 shares under the 1957 Plan and 246,440 shares under the 1963 Plan were outstanding which are or will become exercisable as follows: 7,700 at $12.8125; 23,450 at $16.0625; 42,450 at $18.2813; 8,220 at $18.3438; 19,320 at $19.6563; 6,300 at $19.75; 10,000 at $24.5625; 101,160 at $29.2813; 209,440 at $30.5938 and 37,000 at $36.75. At the beginning of the year 372,290 unoptioned shares were available for granting and 382,050 were available at the end of the year.

ADDITIONAL PAID-IN CAPITAL: Changes in 1965 consist of a charge of $86,703 premium (50¢ per share) on redemption of the 4% cumulative preferred stock and credit for $986,467 excess of proceeds over par value of common stock issued under options exercised.

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS: Charges to income for Employee Retirement Plan contributions for the year amounted to $3,325,806 and for Profit-Sharing Plan contributions amounted to $4,952,303.

DEPRECIATION: The statement of income includes a charge for depreciation of $37,350,559 in 1965 and $34,178,016 in 1964.

TEN-YEAR SUMMARY

1964 (53 Weeks)	1963	1962	1961	1960	1959 (53 Weeks)	1958	1957	1956
2,817,569	2,649,712	2,509,644	2,538,032	2,468,973	2,383,011	2,225,352	2,117,314	1,989,305
97,875	94,746	83,326	78,587	75,178	76,511	69,874	65,018	53,361
47,895	49,930	44,055	41,985	40,360	40,810	36,468	34,111	27,955
49,980	44,816	39,271	36,602	34,818	35,701	33,406	30,907	25,406
1.77	1.69	1.56	1.44	1.41	1.50	1.50	1.46	1.28
735	838	903	1,021	1,082	1,130	1,197	1,392	1,941
23,367	20,723	20,052	19,045	17,676	15,415	13,461	10,767	8,819
25,878	23,255	18,316	16,536	16,060	19,156	18,748	18,748	14,646
1.95	1.75	1.53	1.43	1.36	1.40	1.32	1.24	1.07
1.35	1.28	1.24	1.26	1.18	1.13	1.03	1.00	1.03
3.30	3.03	2.77	2.69	2.54	2.53	2.35	2.24	2.10
.92½	.82½	.80	.76¼	.71¼	.62½	.55	.45	.40
5.53	4.78	4.70	4.96	4.34	4.59	4.32	4.67	4.60
12.73	11.71	10.78	10.04	9.36	8.70	7.76	7.15	6.32
28-37¾	22¾-32⅜	18⅛-30⅛	18⅜-31⅞	16¼-20¼	17⅜-21⅛	12¼-20⅞	10⅛-13¾	8½-11⅞
140,163	120,177	117,902	124,085	108,611	113,285	106,173	113,347	105,964
1.89	1.74	1.81	1.89	1.78	1.86	1.81	1.90	1.80
322,501	294,551	270,298	251,326	232,606	215,080	190,871	173,688	145,513
68,804	66,605	63,120	60,896	63,507	63,149	59,555	57,356	54,949
58,100	58,900	59,900	58,600	59,000	59,000	54,917	43,224	39,316
2,099	2,059	2,069	2,054	2,207	2,164	2,117	2,033	1,981
1,322	1,250	1,183	1,131	1,101	1,088	1,050	1,029	976
49,980	44,816	39,271	36,602	34,818	35,701	33,406	30,907	25,406
34,178	32,230	30,970	31,435	29,177	27,805	25,270	23,854	22,671
(346)	1,514	1,300	540	—	—	—	—	—
1,769	609	1,799	700	—	—	—	—	—
(23,565)	(1,736)	(3,724)	714	1,072	(245)	432	(62)	(254)
62,016	77,433	69,616	69,991	65,067	63,261	59,108	54,699	47,823
24,102	21,561	20,955	20,066	18,758	12,569	18,635	12,159	10,760
44,486	46,281	46,658	28,126	43,525	36,833	38,762	27,934	16,375
411	617	1,707	294	13	(274)	403	(898)	(607)
19,986	2,275	(6,184)	15,474	(4,674)	7,112	(7,175)	7,384	10,379
(26,969)	6,699	6,480	6,031	7,445	7,021	8,483	8,120	10,916
62,016	77,433	69,616	69,991	65,067	63,261	59,108	54,699	47,823

Behind the scenes, in the more than 250 different types of jobs found in Safeway, highly skilled technical and professional employees aid the front-liners in retail operations. At right, in a Safeway Brand quality-control laboratory, products are being tested by panel of specialists.

with food consumers, and virtually every retail employee has day-to-day associations with these consumers. To an important degree, each employee *is* Safeway in the eyes of the shopper; the impression she gains from these contacts often determines in large measure whether or not she will come back again.

Store facilities can be matched by competitors but a consumer franchise built on friendliness, warmth, and fair dealing is one which cannot readily be taken away. A store that is *people-oriented* has a big edge. One of Safeway's foremost goals is to make each store the friendliest store in its neighborhood.

PEOPLE – *Community Relations*

"Safeway is a good citizen." This is the image we strive for, not just on a corporate level, but in every store in every community—and in every warehouse and office and plant. Good citizenship, of course, comes down to personal participation at the local level by dedicated Safeway men and women. All employees are strongly encouraged to "enter in," but it takes a personal resolve and a personal commitment to be an effective good citizen. We are fortunate, and proud, that in Safeway we have thousands of such community-minded people who do have this personal resolve and who are doing outstanding public service work.

Examples of just a few such activities in 1965 . . . a store manager in the Northwest was commended as an "outstanding citizen" by the Oregon Army National Guard for his efforts in maintaining a provisions headquarters to serve stricken communities during a flood disaster . . . residents of a Texas town recently elected four Safeway employees to the city council (one as mayor) . . . a store manager was named vice president of the Parent-Teachers' Association for northwestern Arizona . . . a store clerk in Oregon was named "Woman of the Month" by the city's Business and Professional Women's Club . . . two women employees in a Canadian city won top honor awards from the Chamber of Commerce for "unfailing courtesy to customers" . . . a Washington, D.C. truck driver received the Arthur Godfrey Award for heroism in saving the life of an injured motorist . . . numerous employees were given citations for outstanding work with scout troops, school boards, charitable organizations and church groups.

As a company Safeway was also active in community affairs. Contributions were again made to local community fund drives and other charitable organizations. Arrangements were made where possible to conform with local requests in store development plans. This led, for example, to the preservation of a large community

Safeway employees are active in civic welfare. Good example is the typical response of employees to fund-campaign in San Diego, Calif. They contributed total of $27,000 to 1965 United Crusade drive, reportedly a record. Spelled out in apples is the per capita gift at Store No. 1479.

Tours through Safeway plants, warehouses, stores, are popular among groups of both adults and children. Here an elementary class from Washington School, Oakland, Calif., tours Store No. 651. Note the apples.

tree on Safeway property in Oswego, Oregon (see photo)—to the commemoration of an historic school on a store site in Osawatomie, Kansas—to the installation of a hitching post for equestrian customers in Moraga, California—to unique store designs in many areas to tie in with local architectural patterns.

We also continued the practice of arranging for guided tours of stores and plants for numerous youth groups and service organizations.

Relations with Government

In our 1963 Annual Report, we said we would welcome a comprehensive, objective study of food marketing in the United States, as requested by President Johnson.

Throughout 1965 we cooperated fully in supplying information and operating data to the 15-member National Commission on Food Marketing, the group authorized by Congress and appointed by the President.

The Commission and its staff held a number of hearings, conducted numerous interviews, and obtained a considerable quantity of previously unpublished industry data. In addition to furnishing the voluminous information requested, we suggested and developed supplementary data which we considered to be useful in the evaluation of competitive forces in the food industry.

We are continuing to work with Commission personnel, confident that a thorough-going review of the information developed will demonstrate the many tangible benefits—both to the consumer and producer—that are being derived from an efficient, low cost distribution system. The NCFM's final report to the President and Congress is due July 1, 1966.

In late 1965, President Johnson also appointed a National Advisory Commission on Food and Fiber to make broad-scale studies and policy recommendations regarding the nation's agricultural programs, both foreign and domestic. Robert A. Magowan, Safeway's President and Board Chairman, was named to this 30-member Commission composed of outstanding representatives from the fields of agricultural production, processing and distribution, and from academic and governmental bodies. This Commission's report is due in mid-1967.

The year 1965 also saw dismissal of a complaint, issued by the Department of Agriculture four years ago, which had charged that Safeway and four meat packers had manipulated or controlled live lamb prices in violation of the Packers and Stockyards Act. Safeway, as stated in our 1961 Annual Report, denied the complaint as unfounded. In February of 1965, without any hearings, USDA moved to dismiss the complaint stating that, on the basis of the evidence then available, it would not serve the public interest to prosecute the charges.

Goodwill gesture was extended by our Spokane, Wash., Retail Division to the annual Roundup of 9,000 Girl Scouts encamped at Farragut, Idaho, as evidenced below. The 5,868 jars of Safeway's Nu Made Mayonnaise were donated by our Grandview, Wash., supply plant.

"Please spare that tree!" pleaded residents of Lake Oswego, Oregon, referring to an 80-foot sequoia on the site where our new store was planned. Above is the result. The new store was built and the tree has become an annual Christmas attraction. We decorate it with 2,200 lights, also provide a Santa Claus and candy for the children.

OUR OPERATIONS TODAY

At year's end we had a total of 2,170 stores located in the United States, Canada, England, Scotland, West Germany and Australia. Regional Managers in the United States, as well as the Denver and Washington, D.C. Division Managers, report to Senior Vice President Quentin Reynolds. The Regional Manager for Canada and the overseas Division Managers report to the President.

GUS H. PARKER
Regional Manager

FRED E. MACRAE
PORTLAND DIVISION
101 Stores

K. W. HUNTINGTON
SACRAMENTO DIVISION
85 Stores

GUS H. PARKER
SAN FRANCISCO DIVISION
196 Safeway Stores
13 Safeway Super $ Stores

C. A. BRADBURN
SEATTLE DIVISION
110 Stores

L. M. PRINGLE
SPOKANE DIVISION
39 Stores

HENRY CLAY
Regional Manager

C. C. FOSTER
DALLAS DIVISION
142 Stores

ROBERT L. JAYNES
EL PASO DIVISION
54 Stores

H. A. JUSTICE
LITTLE ROCK DIVISION
50 Stores

R. E. TEMPLEMAN
OKLAHOMA CITY DIVISION
73 Stores

EARL W. SMITH
SOUTHERN CALIFORNIA DIVISION
226 Safeway Stores
13 Safeway Super $ Stores

FRED E. ROWLAND
TULSA DIVISION
42 Stores

W. S. MITCHELL
Regional Manager

W. E. MURRAY
BUTTE DIVISION
44 Stores

FRANK J. GLASGOW
KANSAS CITY DIVISION
109 Stores

PAUL K. HENDRIX
OMAHA DIVISION
96 Stores

HENRY J. FRANK
PHOENIX DIVISION
38 Stores

HOWARD BARTON
SALT LAKE CITY DIVISION
71 Stores

W. J. KRAFT
Regional Manager

A. G. ANSELMO
PRAIRIE DIVISION
100 Stores

W. J. KRAFT
VANCOUVER DIVISION
92 Stores

W. F. GRIFFITHS
WINNIPEG DIVISION
49 Stores

R. L. CAMPBELL
DENVER DIVISION
159 Stores

BASIL WINSTEAD
WASHINGTON, D.C. DIVISION
224 Safeway Stores
2 Safeway Super $ Stores

DAVID LAUB
UNITED KINGDOM DIVISION
26 Stores in United Kingdom
5 Stores in West Germany

GEORGE E. RUDOLPH
AUSTRALIAN DIVISION
11 Stores

West Germany

United Kingdom

Australia

People-to-people relations in a friendly atmosphere is the measure of our success, attested to by the 6,000,000 families shopping Safeway regularly each week. Key point is the checkstand. This busy scene, left, is at Store No. 507, San Francisco.

SAFEWAY $ BRANDS

In many product lines we stock brands bearing the Safeway $ insigne. These brands are manufactured by or for Safeway in accordance with rigid quality specifications. The $ mark on the label stresses the fact that Safeway stands behind them with its famous Money Back Guarantee.

Safeway $ brands have gained a loyal customer following because they offer consistently high quality at significant savings.

We, of course, always carry a wide selection of manufacturers' brands in order to give customers a broad choice among products, varieties, sizes and price levels. Safeway is in business to sell the shopper what she wants to buy, and we believe this can best be done by offering her a wide variety of dependable products—all acceptable, but some perhaps better suited to her particular needs and tastes than others.

Unquestionably the champion consumer of Lucerne Cottage Cheese, an $ brand, is Mrs. Gertrude Hawkins, of Long Beach, Calif., seen here with 2,500 empty cartons of the product. A biochemist, keenly interested in weight control, she embarked on cottage cheese diet in 1957, graciously consented to story and photo in October '65 issue of Safeway News, our employee publication.

Consolidation of Non-Foods Operations

In October, 22 Safeway Super $ stores located east of California, plus 8 stores in various stages of completion, were sold to Skaggs Drug Centers, Inc. of Salt Lake City. Retained were two stores in the Washington, D.C. area and 26 stores in California and Alaska.

This move will allow concentration in regions with high growth potential where administration can be closely coordinated with other Safeway operations. Functions of these stores, previously administered by a separate Non-Foods Division, have been assigned to the Safeway Retail Divisions serving the same territories. This permits numerous economies in store operation and management, as well as greater uniformity in personnel and merchandising procedures.

Consumer-attitude surveys have demonstrated that shoppers like the idea of

True enough that women are predominant among supermarket shoppers, but they haven't a monopoly in this area. Research indicates that today more than one of every four Safeway shoppers is a man. Which of the two is the better shopper? This is a question for family debate!

BUSY BAKER

Royal Satin

Mrs. Wright's

nu-made

Sea Trader

Jell-well

MANOR HOUSE

Kitchen Craft

Bel-air

CAPTAIN'S CHOICE

Cragmont

EDWARDS

Brocade

white magic

Sunnybank

EMPRESS

Roxbury

Truly Fine

Crown Colony

TownHouse

Canterbury

LUCERNE

Steady increase of patronage in our stores abroad indicates healthy outlook for future. Typical is this scene, right, at opening of Store No. 232, Lewisham, England. We now have, in our United Kingdom Division, 23 stores in England, 3 in Scotland, 5 in West Germany.

one-stop shopping. They like to be able to park in one place and buy all types of everyday needs. By having attractive, well-stocked food and non-food outlets adjacent to one another it is possible to stimulate a considerable amount of cross-shopping between the two.

International

Eleven new overseas stores were opened during 1965, bringing the total to 42 in areas outside the United States and Canada.

Geographically these eleven stores are located: 4 in England (Lewisham, Walton-on-Thames, East Ham, Leeds), 3 in Scotland (Glasgow, Muirend, E. Kilbride), 2 in West Germany (Hamburg, Bremen), and 2 in Australia (the Bentleigh and Heidelberg sections of Melbourne). In addition, we had a major rebuilding of one of our original stores in Australia.

These new stores are being well received by local residents. Consumer studies have repeatedly shown favorable acceptance of our modern merchandising methods. Meanwhile, sales of previously built stores have continued to climb as additional consumers have become convinced of the advantages of shopping Safeway.

Overseas operations are staffed primarily by nationals of the respective countries in order to get maximum benefit from their first-hand knowledge of local needs and customs. They do, however, work in close liaison with their respective counterpart specialists at headquarters, so that both can benefit from the free exchange of ideas and information.

Site development work is continuing in all of these areas, and a number of additional stores will be opened in 1966.

First store in Scotland (Glasgow) drew 6,000 customers opening day in January '65. At right, above, singer Kenneth McKellar and his wife arrive to participate in opening ceremonies. We also have 11 stores in Australia.

Captured under enchanting light of dawn is our new store in Kailua, Oahu, Hawaii, opened in April 1965. Building is 30,600 sq. ft., largest of the four we have in our 50th state. Located in Enchanted Lake Shopping Center, store has 300-car parking lot.

SAFEWAY STORES, INCORPORATED

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